

**REPORT OF THE AUDIT OF THE  
JACKSON COUNTY  
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period  
January 01, 2015 Through May 28, 2015**



**MIKE HARMON  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**JACKSON COUNTY**  
**SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period**  
**January 01, 2015 Through May 28, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Jackson County Sheriff for the period January 01, 2015 through May 28, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected 2014 taxes of \$2,487,918 for the districts, retaining commissions of \$101,964 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$2,380,707 to the districts. Taxes of \$20 are due to the districts from the Sheriff and refunds of \$339 are due to the Sheriff from the taxing districts.

**Report Comment:**

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Shane Gabbard, Jackson County Judge/Executive  
Honorable Paul Hays, Jackson County Sheriff  
Members of the Jackson County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Jackson County Sheriff's Settlement - 2014 Taxes for the period January 01, 2015 through May 28, 2015 - Regulatory Basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky  
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### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of May 28, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 01, 2015 through May 28, 2015 of the Jackson County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015 on our consideration of the Jackson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Jackson County Sheriff's internal control over financial reporting and compliance.



To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Shane Gabbard, Jackson County Judge/Executive  
Honorable Paul Hays, Jackson County Sheriff  
Members of the Jackson County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

December 17, 2015

JACKSON COUNTY  
PAUL HAYS, SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period January 01, 2015 Through May 28, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 108,526	\$ 529,565	\$ 953,143	\$ 199,015
Tangible Personal Property	7,921	36,643	69,566	28,501
Fire Protection	1,402			
Franchise Taxes	48,946	227,646	429,870	
Distilled Spirits Taxes				
Additional Billings	112	542	980	198
Oil Property Taxes	1	7	13	3
Limestone, Sand and Gravel Reserves	190	899	1,667	341
Penalties	1,085	5,220	9,414	1,950
Adjusted to Sheriff's Receipt	1	1	(1)	28
Gross Chargeable to Sheriff	<u>168,184</u>	<u>800,523</u>	<u>1,464,652</u>	<u>230,036</u>
<u>Credits</u>				
Exonerations	624	3,033	5,471	1,106
Discounts	1,679	7,959	14,636	2,429
Delinquents:				
Real Estate	8,358	40,382	72,798	14,656
Tangible Personal Property	36	166	315	180
Unbilled Additional Bill	10	48	90	18
Franchise Taxes	102	482	899	
Total Credits	<u>10,809</u>	<u>52,070</u>	<u>94,209</u>	<u>18,389</u>
Taxes Collected	157,375	748,453	1,370,443	211,647
Less: Commissions *	<u>6,688</u>	<u>31,464</u>	<u>54,818</u>	<u>8,994</u>
Taxes Due	150,687	716,989	1,315,625	202,653
Taxes Paid	150,373	715,429	1,312,916	201,989
Refunds (Current and Prior Year)	<u>337</u>	<u>1,612</u>	<u>2,953</u>	<u>664</u>
Due District or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (23)</u>	<u>\$ (52)</u>	<u>\$ (244)</u>	<u>\$ 0</u>

\*\*

\* and \*\* See next page.

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY  
PAUL HAYS, SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES  
For The Period January 01, 2015 Through May 28, 2015  
(Continued)

\* Commissions:

4.25% on \$ 979,522  
4% on \$ 1,508,396

\*\* Special Taxing Districts:

Library District	\$	(28)
Health District		(14)
Extension		(16)
Ambulance		(14)
Soil District		20
		<hr/>

Due District or		
(Refunds Due Sheriff)	\$	<u>(52)</u>

JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENT

May 28, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits:

The Jackson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JACKSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
MAY 28, 2015  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Jackson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 28, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2015 through May 28, 2015.

B. Oil Property Taxes

The tangible property tax assessments were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 10, 2014 through May 28, 2015.

C. Limestone, Sand and Gravel

The tangible property tax assessments were levied as of January 1, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 10, 2014 through May 28, 2015.

Note 4. Interest Income

The Jackson County Sheriff earned \$88 as interest income on 2014 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$12,094 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Shane Gabbard, Jackson County Judge/Executive  
Honorable Paul Hays, Jackson County Sheriff  
Members of the Jackson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Jackson County Sheriff's Settlement - 2014 Taxes for the period January 01, 2015 through May 28, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 17, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Jackson County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts

December 17, 2015

COMMENT AND RECOMMENDATION



JACKSON COUNTY  
PAUL HAYS, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period January 01, 2015 Through May 28, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

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The Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The bookkeeper collects tax payments from customers, prepares the deposits, and prepares monthly tax reports. The bookkeeper also prepares the monthly payments to the taxing districts, signs the checks, and performs monthly bank reconciliations.

A limited budget places restrictions on the number of employees the Sheriff could hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Lack of oversight could result in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

Proper segregation of duties over collecting taxes, preparing daily deposits, preparing monthly reports, and preparing disbursements is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff should separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If these duties cannot be segregated due to a limited number of staff or a limited budget, then strong oversight should be provided to the employee responsible for these duties and this oversight should be documented on the appropriate source documents. Examples of possible compensating controls include the following:

- The Sheriff, or his designee, could periodically compare the daily tax collection report to the deposit slip. Any discrepancies should be resolved and the review should be documented by initialing and dating the deposit ticket and daily tax collection report.
- The Sheriff, or his designee, could compare total tax collections per the monthly reports to the totals per daily collection reports. Any discrepancies should be resolved and the review should be documented by initialing and dating the report.
- The Sheriff, or his designee, could compare total tax collections per the monthly reports to the total of the monthly disbursement checks. Any discrepancies should be resolved and the review should be documented by initialing and dating the monthly reports.

*Sheriff's Response: No response.*

